



## **I. Introduction**

Since 1999, The Democracy Collaborative at the University of Maryland has worked to build the deep knowledge, theoretical analysis, practical tools, network of relationships and innovative models representing a new paradigm of economic development in the United States. We call this Community Wealth Building.

The hallmarks of this approach include a broad range of mechanisms to (1) refocus public and private resources to expand individual and family assets, (2) broaden ownership over local capital, (3) restore community banks and other local economic institutions, (4) leverage existing assets (such as anchor institutions) for local benefit, and (5) return wealth to communities. Community Wealth Building is a powerful strategy that can help states like Illinois create quality jobs with family-supporting wages, address generational poverty, stabilize communities and the environment, and address growing wealth inequality.

The steps outlined here are all designed to be *actionable*, by which we mean they are low cost, high return, and can be implemented within a reasonably short period of time. All are focused on leveraging the assets of Illinoisans to build stronger communities. All are proven models — drawn on leading precedents from across the country that we have identified in our research over the past 15 years. To date, no state has yet adopted a comprehensive across-the-board Community Wealth Building approach. Illinois is well positioned to seize a national leadership position.

## **II. Retaining Jobs and Building Wealth through Employee Ownership**

### **1. Develop an Illinois Employee Ownership Center to retain existing jobs**

Nationwide, there are nearly 11,000 employee-owned (ESOP) companies. The strength of employee ownership as a wealth building and job creation strategy is clear. Employee ownership as of the end of 2006 was responsible for generating \$869 billion in assets for 10.3 million employee-owners – in other words, a *per capita* retirement account balance of over \$84,000.

A 2008 article in the *Milwaukee Business Times* points out that, “As the baby boom generation ages over the next 20 years, the owners of most of Wisconsin’s 150,000 businesses will retire or will start seriously planning for retirement. More than 75 percent of American middle-market business owners,” the article adds, “anticipate selling within a few years...” As John Logue, the late Founding Director of the Ohio Employee Ownership Center, noted, “The failure to plan for business succession is the number one cause of preventable job loss in this country.”

Employee ownership already is common in Illinois. Three of the top 100 majority-owned ESOP companies in the nation are based in Illinois: food distributor KeHE Distributors in



Romeoville (4,000 employees), electrical equipment manufacturer S&C Electric in Chicago (2,500 employees) and Martin & Bailey, Inc. (i.e., Hucks), which is 100 percent employee-owned and based in Carmi (1,500 employees). All told, there are well more than 500 employee-owned businesses throughout the state.

Founded in 1987, the Ohio Employee Ownership Center (OEOC), housed at Kent State University, assists retiring owners of family-owned businesses to transfer ownership to their employees, rather than shutting their business down or selling to a competitor who is likely to consolidate operations and reduce the number of available jobs after the purchase. Over the course of more than two decades, the Center has helped employees buy all or part of 92 companies, creating more than 15,000 employee-owners at a cost of \$772 per job created and retained. As measured in 2010, wealth created *per employee* has averaged \$40,000. A similar program in Illinois, housed at a local university and seeded with a modest level of state funding, supplemented with philanthropic contributions, could achieve similarly stellar results in Illinois.

The budget of OEOC has never exceeded \$1 million. If the state of Illinois were to make an allocation to cover half the cost, the remainder could surely be raised from other sources. Perhaps the best way to implement would be for the Illinois Department of Labor to invite proposals from in-state universities to host such a Center. The RFP would include matching requirements as well as criteria to assure competency in the areas of small business development, business succession, technical assistance, and outreach capacity.

**Cost:** \$500,000.

## **2. Assist Illinois banks to finance employee ownership**

Illinois' Business Invest linked-deposit program should be expanded to help finance the conversion of Illinois businesses to ESOPs, following Indiana's lead in this area and helping ensure the creation of more employee-owned jobs statewide. Illinois is already assisting financial institutions to offer below-market interest rates on loans to Illinois businesses, non-profit organizations, child care providers and health care providers, and units of local government; financing employee ownership should be included also.

Nationally, a 2008 study by two Wharton business school researchers (Freeman and Knoll) found that as a result of added productivity of ESOP firms, S-corp ESOPs alone (roughly 40 percent of all ESOPs) return \$8 billion a year in added federal income tax revenue —four times the cost of the ESOP tax expenditure. The same study also found that S-corp ESOPs contributed directly to community economic stability, estimating that annual gains from increased job stability” saves employees approximately \$3 billion annually.” Such numbers (studies documenting ESOP effectiveness date back to the 1980s), helped lead the neighboring state of Indiana to place \$50 million in a “linked-deposit” program. The way a “linked deposit” works is that the state purchases



certificates of deposit (on which it earns a low, but positive, rate of interest) that the bank then agrees to re-lend at a below-market rate to finance the ESOP transaction. For example, in 2010, the state of Indiana received 1 percent interest while ESOPs could borrow at 4.25 percent. By providing cheaper financing of employee-owned businesses, Illinois could follow Indiana's lead and help ensure the creation of more employee-owned jobs statewide.

**Cost:** No direct budgetary cost. There is a small cost in terms of foregone interest, offset by additional state income tax revenues generated through increased employment. It is likely that this measure would actually *raise* revenue for the state.

### III. Deploying State and Other Public Assets to Reinvest in Illinois

#### 3. Leverage Hospital Investment

Hospitals are major economic engines that if employed strategically could have a major impact on the welfare of Illinois citizens. The Illinois Hospital Association's (IHA) 2012 economic impact assessment notes that in nearly half of the state's counties, hospitals are among the top three employers. For FY 2011, hospitals employed more than 250,000 people, spent \$14 billion on goods and services and another \$3.4 billion on buildings and equipment. Since the beginning of the Great Recession, hospitals have created more jobs than any other industry sector in Illinois.

Of the nearly 200 hospitals across Illinois, nearly 80 percent are nonprofit and another 15 percent are state and local government owned. These are institutions that have a public mission to promote health. Increasingly, it is obvious that the main determinants of health are not strictly speaking medical, but economic factors — impacting health outcomes by approximately 40 percent whereas as access to medical care impacts such outcomes by approximately 10 percent. As Risa Lavizzo-Mourey, President of the Robert Wood Johnson Foundation, has written, “We have learned that factors that are integral to poverty, such as insufficient education, inadequate housing, racism, and food insecurity, are also indicators of poor health. We know that a child's life expectancy is predicted more by his ZIP code than his genetic code.” Depending on which Chicago neighborhood you live in, your life expectancy is either less than 70 years or almost 85 — a difference of more than 15 years. Responding to this insight, the Affordable Care Act for the first time requires all nonprofit hospitals to conduct a Community Health Needs Assessment, develop an implementation strategy, and begin to move beyond the paradigm of “charity care” toward one rooted in direct community benefit.

Illinois can take two steps to leverage this new federal requirement to expand economic development. First, Illinois should prioritize the community benefit importance of “community building” activities that address social and economic determinants. These interventions are not only more effective at addressing individual and community health issues; they are significantly less costly than charity care.



Additionally, the Governor's Office could convene a hospital roundtable to: a) facilitate the sharing of best practices and b) align hospital investments in community economic development with statewide economic developments goals, such as increased local procurement, import substitution, and achieving a multiplier effect. In Michigan, Henry Ford Health System, Detroit Medical Center and Wayne State University have jointly shifted \$16.5 million in procurement locally just since 2011 as part of an effort to stimulate economic activity in the City. Henry Ford has set a target of procuring \$100 million from minority and women-owned suppliers — the vast majority of which are located in southeast Michigan — and has tied executive compensation to this goal.

**Cost:** No cost beyond the cost of holding a conference of leading health care providers.

#### **4. Promote greater community investment by universities in Illinois**

The idea of a U.S. land grant college that would be designed to serve ordinary Americans originated with an Illinois resident, Professor Jonathan Baldwin Turner of Jacksonville. Another Illinoisan, Abraham Lincoln, signed the Land Grant College Act of 1862 into law. Today, the state of Illinois could again play a catalytic role by investing in a revival of that homegrown tradition.

Like hospitals, universities are also major economic engines. Together, the healthcare and education sectors added a third of all new jobs (nearly 17,000) in Illinois between December 2010 and 2011. Statewide, the University of Illinois procures more than \$1.5 billion annually in goods and services and has a staff of more than 23,000 full-time employees and 10,000 graduate assistants. Just three universities — Northwestern University, University of Chicago and University of Illinois — have combined endowments of more than \$15 billion. If employed strategically, this powerful force could have a major impact on the welfare of Illinoisans.

Recently, Ira Harkavy and Rita Hodges of the Netter Center of Community Partnerships at the University of Pennsylvania published a paper calling for federal action to encourage higher education engagement with communities. But the same steps could be even more effective at the state level. Namely, the State of Illinois could create a commission — comprised of local and states officials along with leaders from the private sector and higher education — to encourage the state's institutions of higher education to engage in civic partnerships and community investment. These might include such things as: partnerships with K-12 schools, investing endowments in community economic development and local business incubation. The commission also could develop innovative strategies for integrating state programs and funding streams, as well as aligning state efforts with these new local civic partnerships that involve colleges and universities. The commission also might promote regional consortia of higher educational institutions to significantly and effectively improve schooling and community life. To acknowledge and promote such activity, the State could create prestigious Governor's



Awards for Outstanding Higher Education Community Investment.

**Cost:** Staffing and some administrative costs to support the work of the Commission. The Governor's Awards could simply be designed as public acknowledgements, but if financial awards were to be made, the program would surely generate considerably more community investment from participating institutions.

### **5. Invest state pension fund dollars in Illinois**

Since 1990, the Retirement System of Alabama has invested \$5.6 billion or 10 percent of the corpus of the pension fund in investments within the state to spur economic development. A 2012 study commissioned by the RSA of these investments estimated that the returns from these investments were greater than if they had been invested in traditional pension-fund investments. Other states and cities likewise invest pension dollars locally. In New York City, economically targeted investments (ETI) total more than \$1 billion, which has helped fund the renovation, new construction, or financing of more than 30,000 units of affordable housing and many small retail spaces, as well as financing childcare facilities and senior citizen centers.

**Cost:** None. Involves redirecting existing pension investments, with no new net expenditure. While there is some risk of lower returns, it is often the case that such investments earn higher returns, as well as generating non-pension returns (i.e., more tax revenue for the state).

## **IV. Investing in Resident-Owned Affordable Housing**

### **6. Convert manufactured housing into resident-owned communities**

Nationally, there are roughly 17 million families who live in manufactured housing communities, the nation's single largest source of affordable housing (i.e., it's not public housing, it's not vouchers, and it's not tax-credit financed housing either). Residents own their home but typically do not also own the land on which they sit; as a result the mobile home is treated as a depreciating asset, resulting in higher fees and interest, to say nothing about the lack of security of tenure. According to Bob Thieman of the Illinois Manufactured Housing Association, there are about 1,800 land-leased manufactured housing communities in the State.

In New Hampshire, over the past two decades, a community development loan fund pioneered a financing concept that has enabled 20 percent of all manufactured housing residents to own the manufactured housing land through a cooperative. The results have included lower financing and, according to a Carsey Institute study, 12 percent higher earnings per square foot on sale. In short, the cooperative converts the depreciating asset (like a car loan) into an appreciated asset (like a single family detached home).



Since 2009, this model has been implemented nationally through a partnership with the nonprofit CFED and the Ford Foundation. The State, however, could assist this partnership, by developing an Illinois-based partner that can carry out this conversion work in the State. A grant from the Housing Department could seed this capacity building.

**Cost:** Perhaps a one-time grant of \$500,000 to jump-start an effort in cooperation with a local community partner.

### **7. Redirect housing dollars to support permanently affordable housing**

Federal HOME dollars and other state and federal housing grants could be shifted to support permanently affordable housing models, such as community land trusts, that enable families to begin to accrue assets while maximizing the full impact of the public subsidy.

Traditionally federal HOME dollars have been used to subsidize homeownership through providing “soft seconds” (downpayment money with zero interest that doesn’t have to be repaid until sale) or even outright grants to income-qualified families. As Rick Jacobus and Jeff Lubell noted in a 2007 Center for Housing Policy report: “Many programs designed to assist first-time homebuyers ... have no provisions preventing the assisted family from selling the unit and realizing a windfall the day after the home is purchased. What naturally happens is that as the amount of per-household subsidy rises, programs become more concerned about preserving the value of public subsidies and turn from grants to loans and then to “shared equity” approaches...” Jacobus and Lubell have developed a model that assumes \$50,000 in subsidy in year one, but with housing prices rising over a period of 35 years at an average rate of six percent compared to three percent for incomes. If the house is owned by a community land trust, the one-time subsidy of \$50,000 is adequate to ensure permanent affordability. Assuming average residency of seven years, over 35 years the \$50,000 is sufficient to finance affordable housing for five families. By contrast, to provide housing to the same five families using standard loan products as described above would cost \$820,000.

Moreover, even in a down market, community land trusts have significant community stabilizing benefits. A survey conducted by the National Community Land Trust Network in December 2008 found that “Community Land Trust homeowners were far less likely to be delinquent on their mortgages or in foreclosure than other homeowners in the United States. While 3.3 percent of all homeowners were facing foreclosure proceedings at the end of 2008, 0.52 percent of CLT homeowners’ mortgages were in foreclosure.”

**Cost:** None. Simply involves redirecting existing housing dollars and spending them more efficiently.





## V. Supporting Cooperative Business Development

### 8. Reform Illinois' Cooperative Statute

The Illinois Cooperative Act (805 ILCS 310) is a somewhat antiquated cooperative law. It does not cover many concepts that are typically covered in a cooperative law (e.g., authorization or process to merge with another coop, details for member voting and member meetings, director indemnification, dissolution process). The Cooperative Act does authorize forming a cooperative made up of members desirous of uniting as laborers. But it also includes some provisions that could be restrictive and inconsistent with a worker-owned cooperative formed for economic development and wealth building. For example:

1—Section 1 requires that 5 or more members must sign the articles of incorporation. This may be inconsistent with the worker-coop model where workers become members only after a probationary or candidacy period, as occurs with many worker cooperatives.

2—Section 2 limits the amount members can pay for membership stock to \$500, which may be inconsistent with minimum investment by members in the worker-coop model.

3—Section 7 says that only members (shareholders) can be elected as directors (“directors shall be elected by and from the shareholders”). This could be inconsistent with the optimal governance model for the worker-coop model.

4—Sections 15 and 19 address distribution of profits. Similar provisions in more modern coop laws are better written and make clearer that distributions can be made in cash and/or patronage equity and based on separate allocation units.

One alternative would be to make modifications to the Cooperative Act to address these and other matters. Another and perhaps better alternative would be to explore adoption in Illinois of a more modern cooperative law. This has been done recently in both Wisconsin (Chapter 193 adopted in 2005) and Iowa (Chapter 501B adopted in 2010). These laws may serve as a useful model for adoption of a more modern cooperative law in Illinois.

**Cost:** As this is a legislative matter, the cost should be absorbed into the normal operations of the State government.

### 9. Support cooperative development in rural Illinois

Nationally, the US Department of Agriculture’s Rural Cooperative Development Grant program has funded grants to support cooperative economic development throughout the United States, including in Illinois, where the Illinois Institute for Rural Affairs has been a grant recipient. Since the 1990s, for an annual national budget that typically has been in



the \$6 to \$7 million range (the program did receive twice this amount during the ARA “stimulus” period), this network has helped start or expand more than 400 co-op businesses with over 47,000 members and assets of \$900 million, thereby creating 5,800 new jobs in many different economic sectors, including energy, housing, agriculture, forestry, food, senior and childcare services and health care. Yet the amount of the federal grants has been paltry — a typical grant is about \$200,000 — limiting the potential of this program.

**Cost:** A \$1 million annual re-allocation from the Illinois Department of Agriculture, developed along similar lines, could be anticipated to provide a substantial boost to Illinois’ capacity to support home-grown business development in rural areas.

#### **10. Catalyze cooperative job creation strategies in low-income communities**

In many cities across the country – from Cleveland, OH and the Bronx, NY to Richmond, CA – cooperative businesses are emerging in low-income communities. Their goal is to stabilize communities, provide living wage jobs and build wealth for residents of these disinvested areas.

Policy can play an important role in furthering the growth of cooperative development. First, a dedicated state office can issue the clarion call for developing “jobs that you can own.” Second, this office needs to be linked to a finance entity that can seed local Cooperative Development Revolving Loan Funds. Third, technical assistance dollars can fund the vital pre-development work needed to start new networks. Lastly, policy can help link these co-ops to other innovative wealth building tools.

**Cost:** A 5-city pilot program might cost \$5 million a year, with a one-time State-financed capital investment pool of \$50 million. These funds could be disbursed through a request-for-proposals process in which applicants would have demonstrated both broad-based support from local government, hospitals, and universities, as well as the ability to raise matching funds.

### **VI. Promoting a New Paradigm of Economic Development for Illinois**

#### **11. Convene Community Wealth Building Roundtables in key Illinois cities**

A successful community wealth building agenda must also leverage existing community and local government assets that exist throughout Illinois’ rural and urban counties and cities. To begin this process, the Governor’s Task Force should convene a series of Community Wealth Building Roundtables in key Illinois cities, and invite critical stakeholders from local governments, anchor institutions, philanthropic organizations, public health departments, faith-based organizations and other community-based groups and organizations. Communities that might host such roundtables could include Illinois cities and metropolitan areas such as Chicago, Rockford, Springfield, Peoria, Champaign-Urbana, the Quad Cities (Rock Island, Moline, and East Moline) and East St. Louis.





These roundtables would provide a forum for anchor institutions, community groups and the public sector to come together and generate common strategies for building community wealth. The roundtable could also be an opportunity for local leaders to begin to identify likely roadblocks and to devise strategies for addressing and overcoming them. To help facilitate this process and maintain coordination between the state and local level, Governor Quinn might consider appointing a community wealth building and anchor institution staff liaison.

Speakers at these events could include a mix of prominent Community Wealth Building practitioners from outside the region, along with government, foundation, and local community leaders. Beyond building a greater understanding of Community Wealth Building, these meetings could aim to establish working groups that can begin to work on “nuts and bolts” matters that can translate institutional community economic development goals into actionable work plans consistent with elements of Community Wealth Building. These events might also identify areas where state government could alter regulations or practices to better support community goals.

**Cost:** Perhaps \$10,000 for each city/metropolitan area, assuming strong local partners willing to provide administrative/logistical support for invitations, hosting meeting, etc.

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